CREDIT UNION ASSOCIATION of Oregon

Testimony of Rick Hein
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Representing the Credit Union Association of Oregon

Congressman Schrader and Members of the Committee, my name is Rick Hein, and I am the President/CEO of OSU Federal Credit Union located in Corvallis, Oregon. We are a full-services, not-for-profit financial cooperative offering a variety of products and services to our members, including a full line of services for small businesses. OSU Federal serves 61,000 members in Benton, Linn, Lincoln, Marion, and Polk counties. Our dedication to service goes well beyond financial solutions—it extends to our communities in which we live and serve, as we pursue stewardship to our environment, leadership in volunteerism and philanthropy, and outreach to improve financial literacy.

America's small businesses are the engine of growth of our nation's economy. The effects of the subprime mortgage crisis have spread to all types of lending, resulting in a decrease in the availability of business credit. <u>As Congress continues to consider ways to help the economy recover, Oregon credit unions support the elimination of the statutory cap on credit union member business lending (MBL)</u>.

Last week, Representatives Paul Kanjorski and Ed Royce introduced H.R. 3380, the Promoting Lending to America's Small Businesses Act," which would increase the credit union member business lending cap to 25% of a credit union's total assets, raise the "de minimis" threshold for a loan to be considered a "member business loan" to $250,000, and exempt loans made to non-profit religious organizations as well as loans made in qualified underserved areas from the cap. These changes to the current statutory restrictions on credit union member business lending will give credit unions currently serving the lending needs of their business-owning members the opportunity to help even more, and it will encourage credit unions that do not currently offer these loans to consider investing the necessary resources to do so. We look forward to its enactment.

The cap on credit union member business lending (currently 12.25% of the total assets of the credit union) has no economic, safety and soundness, or historical rationale. The cap was enacted in 1998; and after a decade, it is time to remove this arbitrary restriction. Credit unions have been lending to their business-owning members for a century. Net charge-off rates for credit union business loans are lower than charge-off rates for business loans made by banks. And, at a time when some lenders are withdrawing credit from America's small businesses, it makes economic sense to restore credit unions' full ability to lend to their business-owning members.

If there was no statutory cap on the amount of business lending a credit union could lend, the Credit Union National Association estimates that credit unions could make up to an additional $10 billion in business loans in the first 12 months. This represents significant economic stimulus that does not cost the taxpayers a dime and does not expand the size of government.

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AMERICA'S CREDIT UNIONS

Eliminating or expanding the limit on credit union member business lending would expand business lending access to many credit union members, thus helping local communities and the economy. While we support strong regulatory oversight of member business lending, there is no safety and soundness rationale for restricting credit union member business loans as the law currently does. There is however, a significant economic reason to permit credit unions to lend without statutory restriction, as they were able to do prior to 1998: America's small businesses need the access to credit. As the financial crisis has worsened, it has become more difficult for small businesses to get loans from banks or maintain the lines of credit they have had with their bank for many years.

If Congress increases the MBL limits, it will make it possible for some inactive credit unions to enter the market and begin offering MBLs. One problem with the current 12.25% limit is that it prevents some credit unions from obtaining a portfolio size and generating income sufficient to support the up-front investment in expertise and overhead associated with expanding into this market.

A higher limit would alleviate some of that pressure. Second, some credit unions currently approaching the 12.25% limit would feel less constrained about increasing their efforts. Expanding access should help to maintain small business access to credit and should help to ensure that economic growth remains robust. Increased business lending activity would be accomplished through growth in business services and through portfolio adjustments. Existing consumer services would not be affected. In fact, the portfolio and revenue diversity afforded by increased business lending often helps credit unions strengthen services to their consumer members. Expanding the credit union business lending limit would increase the options available to small business, and it would make loans available to many businesses, especially very small businesses that currently are unable to obtain credit.

Oregon Business Lending

According to the Credit Union National Association's (CUNA) Department of Economics and Statistics, at the end of 2008, 44 of Oregon's 83 credit unions reported outstanding balances of member business loans (MBLs). The average member business loan granted at an Oregon credit union in 2008 was $284,624, and the market share of business lending for Oregon credit unions is 4.73% compared to 95.27% for banking institutions. Finally, Oregon credit unions have a total balance of $758 million in member business loans compared to roughly $15.3 billion in total business loans for Oregon banking institutions.

Conclusion

Credit unions are, by definition, locally owned and controlled with local decision-making and a strong service-oriented philosophy. Member-owned credit unions are a natural choice for business owners faced with challenges getting access to credit.

We hope that Congress will eliminate the statutory business lending cap entirely, and provide our Regulator with the authority to permit a credit union to engage in business lending above current limit if safety and soundness considerations are met. This is economic stimulus that would not cost the taxpayers a dime, and would not increase the size of government. We also support revising the statutory floor on what constitutes an MBL from the current $50,000 to a more realistic level of at least $250,000.

For many credit unions, however, the current 12.25% member business loan (MBL) limit effectively bars entry into the business-lending arena because the startup costs exceed their ability to cover those costs with a small portfolio. Expansion would thus allow more credit unions to generate the level of income needed to cover startup costs and would expand business lending access to many credit union members.

A growing list of small business and public policy groups agree that now is the time to eliminate the statutory credit union business lending cap, including the Americans for Tax Reform, the Competitive Enterprise Institute, the Ford Motor Minority Dealer Association, the League of United Latin American Citizens, the Manufactured Housing Institute, the National Association of Mortgage Brokers, the National Cooperative Business Association, the National Cooperative Grocers Association, the National Farmers Union, the National Small Business Association, the NCB Capital Impact, and the National Association of Professional Insurance Agents.

Today, Congress has the opportunity to help small business owners by eliminating the credit union member business lending cap. Thank you for the opportunity to testify today.

Credit Union Business Lending Profile

	Oregon	**U.S. Totals**
Number of CUs offering MBLs	44	2,026
Percent of total CUs	53%	24%
Average Size of MBL granted	$285,000	$193,000
Total MBLs outstanding (millions)	$758	$33,000
MBLs as a % of Assets	5.3%	4.0%
Market share of CU & bank business loans		
CU Market share	4.7%	1.1%
Bank market share	95.3%	98.9%
Recent growth rates (12 months ending March 2009)		
Growth Rates in MBLs outstanding	14%	16%
Bank commercial & industrial (C&I) loans	-2%	-3%
Asset quality (1st quarter 2009 annualized)		
MBL net chargeoff rate	0.1%	0.4%
Bank C&I net chargeoff rate	2.37%	1.32%

Sources: FDIC, NCUA, CUNA E&S.